

Adopted by NDPERS Board September 18, 2003

Accepted by SIB Board September 19, 2003

**STATEMENT OF
INVESTMENT GOALS, OBJECTIVES AND POLICIES
FOR THE
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

I. INVESTMENT GOALS

The investment goals of the Fund have been established by the Public Employees Retirement Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies.

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| Goal #1 | Accumulate sufficient wealth through a diversified portfolio of investments which must enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund. |
| Goal #2 | Obtain investment returns in excess of that needed to allow for future retirement benefit increases to provide career employees with a retirement income, which when augmented by Social Security, must approximate 90% of final average salary. |
| Goal #3 | To obtain investment returns in excess of that needed to allow for the disability retirement benefit increase which will approximate 35-45% of final average salary. |
| Goal #4 | To obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their benefit. |

II. DELEGATION OF AUTHORITY

Management responsibility for the investment program not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. Derivatives use will be monitored to ensure that risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. Criteria for making decisions with respect to hiring, keeping, and terminating money managers. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the SIB. All participants in the investment process must seek to act responsibly as custodians of the public trust.

III. INVESTMENT OBJECTIVE

Investments of the North Dakota Public Employees Retirement System (NDPERS) must seek to generate sufficient return to meet the goals outlined in this policy so that the State of North Dakota is not obligated to increase the current statutory contribution rate. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- A. The long term investment objective of the Fund is to achieve a minimum total real rate of return of 6% in excess of the annual rate of inflation. However the absolute total rate of return must be no less than 10.5% net of fees.
- B. The portfolio mix must be in accordance with the asset allocation adopted and as specified herein.

IV. ASSET ALLOCATION

In recognition of the plan's objectives, benefit projections, and capital market expectations, the following is the asset allocation for NDPERS:

Domestic Equities - Large Cap	30%
Domestic Equities – Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	10.5%
Standard Deviation of Returns	11.5%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives of the funds participating in the pools.

V. RESTRICTIONS

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. No transaction shall be made which threatens the tax exempt status of the Fund.
- C. No unhedged short sales or speculative margin purchases shall be made.
- D. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- E. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
 - (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
 - (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
 - (4) The safeguards and diversity that a prudent investor would adhere to are present.
- F. REITs may not be used in the Real Estate asset allocation.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

VI. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

VII. EVALUATION

Investment management of the Fund must be evaluated against the Fund's investment objectives and investment performance standards. Emphasis must be placed on three and five year results. Evaluation will include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports must be provided to the Public Employees Retirement Board quarterly. Such reports must include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with those investment goals, objectives and policies.

Upon implementation of this policy and the above asset allocation, the SIB must meet with the Public Employee Retirement Board. The purpose of the meeting is to review the procedures and policies established by the SIB relating to the Section II - Delegation of Authority. Also, the meeting must review the application of this policy to the funds established by the SIB. After the implementation meeting the SIB and the Public Employee Retirement Board must meet at least annually and conduct a similar review. The annual meeting must also include a review of the progress of the Fund and its asset allocation strategy.

TABLE I
Summary of Actuarial Characteristics *

<i>Funded Position</i>	<i>Amount</i>
<i>Actuarial accrued liability.....</i>	\$842,717,700
<i>Actuarial value of assets.....</i>	916,953,277
<i>Market Value of Assets.....</i>	1,105,445,266
<i>Unfunded actuarial accrued liability (surplus) as of 7/1/99</i>	(74,235,577)
<i>Funded ratio</i>	108.8%
<i>Actuarial interest rate assumption</i>	8.0%
<i>Demographics</i>	<i>Amount</i>
<i>Number of Active Participants.....</i>	16,334
<i>Number of Retirees and Beneficiaries.....</i>	4,114
<i>Number of Inactives.....</i>	2,560
<i>Total Membership.....</i>	23,008
<i>Average Age for Actives (years).....</i>	44.5
<i>Average Service for Actives (years).....</i>	9.6
<i>Average Pay.....</i>	\$24,345
<i>Average Member Deduction (percent)</i>	4.23%

* Based on The Segal Company valuation as of July 1, 1999.

TABLE 7A
Return/Risk Assumptions and Indices

<i>Asset Class</i>	<i>Annual Return</i>	<i>Risk</i>	<i>Index</i>
<i>Dom. Large Cap.</i>	10.25%	14.75%	Russell 1000
<i>Dom. Small Cap.</i>	11.75	17.00	Russell 2000
<i>Int'l. Equity</i>	11.25	19.00	MSCI EAFE (unhedged)
<i>Emg. Mkt. Equity</i>	16.00	35.00	MSCI Emg. Mkts. Free (unhedged)
<i>Dom. Fixed Income</i>	6.75	8.00	LB Aggregate
<i>High Yield Bond</i>	8.75	10.00	ML High Yield
<i>Int'l. Fixed Income</i>	9.00	11.00	SB World Gov't Bond Non US\$ (unhedged)
<i>Real Estate</i>	9.25	9.00	Frank Russell NCREIF
<i>Private Equity</i>	18.00	28.00	NA
<i>Cash</i>	5.00	2.00	SB 3 Mo T-Bill

TABLE 7B
Correlation Coefficients

<i>Asset Class</i>	<i>Dom. Large Cap.</i>	<i>Dom. Small Cap.</i>	<i>Int'l. Equity</i>	<i>Emg. Mkt. Equity</i>	<i>Dom. Fixed Income</i>	<i>High Yield Bond</i>	<i>Int'l. Fixed Income</i>	<i>Real Estate</i>	<i>Private Equity</i>	<i>Cash</i>
<i>Dom. Large Cap.</i>	1.00									
<i>Dom. Small Cap.</i>	0.81	1.00								
<i>Int'l. Equity</i>	0.74	0.56	1.00							
<i>Emg. Mkt. Equity</i>	0.21	0.54	0.55	1.00						
<i>Dom. Fixed Income</i>	0.28	0.13	0.10	0.20	1.00					
<i>High Yield Bond</i>	0.56	0.72	0.30	0.42	0.31	1.00				
<i>Int'l. Fixed Income</i>	0.50	(0.12)	0.48	0.43	0.54	0.68	1.00			
<i>Real Estate</i>	0.17	(0.11)	0.00	0.10	(0.08)	(0.20)	0.20	1.00		
<i>Private Equity</i>	0.58	0.50	0.40	0.50	0.03	0.20	0.00	0.29	1.00	
<i>Cash</i>	0.09	(0.06)	(0.01)	0.09	0.22	(0.26)	0.10	0.37	(0.24)	1.00